golden master, is a 'component' of the foreign-made computer, or is 'combined' with other parts when the foreign computer is manufactured." (Pet. 8-9 n.2.) Microsoft did not develop arguments about whether, as it now seems to dispute (and thinks important to proper analysis), the software it had OEMs install on hard drives abroad was "supplied ... from the United States." 35 U.S.C. § 271(f)(1).

Not surprisingly, then, the Federal Circuit in its opinion addressed only this narrow issue with respect to § 271(f): "[W]hether software code made in the United States and exported abroad is a 'component[] of a patented invention' under section 271(f)." (Pet. App. 21a.) The narrow scope of the issue raised and decided in this case was subsequently confirmed by the Federal Circuit's later opinions discussing the limited holding in this case. *See AT&T Corp. v. Microsoft Corp.*, 414 F.3d 1366, 1369 (Fed. Cir. 2005) (petition for rehearing pending); *NTP, Inc. v. Research in Motion, Ltd.*, 418 F.3d 1282, 1322-23 (Fed. Cir. 2005) (petition for rehearing pending). The ruling in this case is thus not a suitable vehicle for reviewing § 271(f) issues even if they otherwise warranted review.

IV. The Federal Circuit's decision is correct.

A. As a matter of statutory construction, the Federal Circuit correctly held that Microsoft's software was a "component" of "the patented invention" here under 35 U.S.C. § 271(f). The patented invention is (as the patent claim *defines* the invention) a product (like a compact disc or hard drive) that contains certain software: "[1] a computer usable medium having [2] computer readable program code physically embodied therein." (Pet. App. 6a.)

"Statutory construction must begin with the language employed by Congress and the assumption that the ordinary meaning of that language accurately expresses the legislative purpose." *Engine Mfrs. Ass'n v. S. Coast Air Quality Mgmt. Dist.*, 541 U.S. 246, 252-53 (2004) (citing WEBSTER'S SECOND NEW INTERNATIONAL DICTIONARY 2455 (1945) to define "standard"). In ordinary usage, the software is a component of the product consisting of the medium with the software code physically embodied on it (or, in Microsoft's language, "installed on" it (Pet. 3, 6).).

Nothing in the ordinary meaning of "component" limits the term to machines or physical structures. WEBSTER'S THIRD NEW INTERNATIONAL DICTIONARY 466 (3d ed. 1986); THE AMERICAN HERITAGE DICTIONARY 387 (3d ed. 1992). And with respect to computer software particularly, it is ordinary usage of patentees, courts, and the PTO to describe software as a "component" of the computers of which it is a part. *See, e.g., Netword, LLC v. Centraal Corp.*, 242 F.3d 1347, 1351 (Fed. Cir. 2001) (patent claim describes "computers" and their "software components"); *Response of Carolina, Inc. v. Leasco Response, Inc.*, 537 F.2d 1307, 1326 (5th Cir. 1976) ("The final component of the computer system is the application software."); U.S. Patent No. 6,629,151 (filed Dec. 8, 1999) (col. 17, ll. 66-col. 18, ll. 1) (Microsoft's patent claiming "a wireless network hardware component connected to a computer and a software component on the computer"); PTO, Manual of Patent Examining Procedure (MPEP) § 2106.01 at 2100-24 (8th ed. 2d rev. 2004) (discussing elements "at least partially comprised of a computer software component"); MPEP § 2106.02 at 2100-25 (discussing "systems which include a computer as well as other hardware and/or software components"); *see also* MPEP § 2106 at 2100-13

("[A] claimed computer-readable medium encoded with a data structure defines structural and functional interrelationships between the data structure and the computer software and hardware components which permit the data structure's functionality to be realized, and is thus statutory.").

Thus, when the software on Microsoft's golden master is installed on hardware abroad, a "combination" of "components" occurs within the meaning of § 271(f). (Pet. App. 23a); *see also* MPEP § 2106 at 2100-14 ("[A] hardware and software combination . . . defines a statutory product.") (citations omitted). The term "combine" requires no physical joining of tangible components. THE AMERICAN HERITAGE DICTIONARY 377 (3d ed. 1992); WEBSTER'S THIRD NEW INTERNATIONAL DICTIONARY 452 (3d ed. 1986).

B. Microsoft argues otherwise largely by mistakenly treating the software here as indistinguishable from (as no more than) any "design information" or "detailed set of instructions" on how to build the patented invention. (Pet. 4, 18.)[3] That is wrong. The computer readable program code (the software on Microsoft's golden master) is *not a set of instructions to people* on how to build the patented invention; rather, the code *remains on the "computer usable medium" on which it is installed as "instructions" (using Microsoft's locution) for that hardware to continue using*. The computer continues to "use" the software it

[3] In its petition, Microsoft states that "in neither the *AT&T* case nor this case did the Federal Circuit dispute that software code is a 'detailed set of instructions.'" (Pet. 9) (citing Pet. App. 22a). That statement is misleading. The Federal Circuit actually stated that "[t]his part of the software code is *much more than* a prototype, mold, *or detailed set of instructions*." (Pet. App. 22a) (emphasis added).

contains, making the computer usable in a way that is "new and useful." (Pet. App. 21a); *see In re Bernhart*, 417 F.2d 1395, 1399-1400 (C.C.P.A. 1969). And the software can be separated or removed from the other component of the invention – the hardware – without destroying the latter.

"Design information" or "design instructions," in Microsoft's generic sense of instructions to people on how to build the infringing product, is very different.[3] Microsoft's analogy to the design of a tire (Pet. 5-6) or design of a car (Pet. 20) confirms the distinction between software and Microsoft's definition of "design instructions." The "design instructions" to people on how to make a tire mold do not remain with the tire after it is fabricated; the "design instructions" are exhausted vis-à-vis that tire once the tire is made. Nor is the mere shape (tread) of the tire separable from or a "component" of the tire. Software, on the other hand, when physically embodied on a computer usable medium after being installed, remains on the hardware *in order to be read and used* in the use of that hardware and can be separated from that hardware by uninstalling the software. For this reason, an inventor of a software product can seek the protection of a utility patent, as the '906 inventors did. *See In re Alappat*, 33 F.3d 1526, 1537 (Fed. Cir. 1994) (en banc); *In re Bernhart*, 417 F.2d at 1396. A designer of a tire tread or car, on the other hand, obtains protection for that design through a design patent. 35 U.S.C. § 171; *see, e.g.*, U.S. Patent No.

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[3] Microsoft itself understands the distinction between information and software. *Compare* MICROSOFT COMPUTER DICTIONARY 233 (4th ed. 1999) (defining "information") *with* MICROSOFT COMPUTER DICTIONARY, *supra*, at 415 (defining "software").

D508,438 (filed Mar. 22, 2004) (automobile); U.S. Patent No. D508,891 (filed Dec. 12, 2003) (tire tread). Thus, Microsoft is wrong when it challenges § 271(f)'s application to software here by treating it as no different from any design information. (As noted below, the falsity of that equation also answers Microsoft's inflation of the consequences of the ruling in this case.)

In short, Microsoft cannot show error in the Federal Circuit's ruling as to the software here by saying that a "design" of a tire or car is not naturally described as a "component" of the tire or car. The software at issue here, once embodied on a CD (or other computer usable medium), is in plain terms a "component" of the computer program product that is the "patented invention" of the '906 patent. That is the natural meaning of § 271(f)'s language. No principle of law overrides a court's duty to give the natural meaning to a statute that was indisputably intended to reach some activities beyond United States borders. (*Contra* Pet. 11-12.) Microsoft's reliance on "extraterritorial effect" principles is therefore misplaced.

C. The Federal Circuit's result makes perfect sense of § 271(f). While the statutory language may have been enacted in response to *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518 (1972), which happened to involve physical-structure components (*see* Pet. 13), nothing whatever suggests that the congressional response was limited to such physical-structure components. Rather, the response reached any "components" whose natural meaning embraces software physically embodied in a medium that, when it contains the software, is the "patented invention."

It would be strange if such software were *not* covered by § 271(f). For every copy of the Windows software that is installed abroad, virtually the entire value was created in the United States. The design and careful writing of software may cost vast sums of money. The making of copies thereafter is trivial in cost. The core policy of § 271(f) captures this case: the United States is the locale of all but the final, economically insignificant work in completing the infringing products.

Furthermore, § 271(f) requires that the defendant *intends* its domestic work to be combined into the final infringing product. *See* § 271(f)(1) ("[I]n such manner as to actively induce the combination of such components."); § 271(f)(2) ("[I]ntending that such component will be combined."). That is undeniably Microsoft's intent for its golden master, and Microsoft has not contended otherwise. In shipping the golden master abroad precisely in order to have the software it contains installed on multiple computer usable media, Microsoft is doing just what § 271(f) was intended to cover.

Indeed, Microsoft's arguments that the software on the golden master is nothing but "design information" and that the copies are created upon installation abroad are undermined by its own prior successful argument in another context. In *Microsoft Corp. v. Comm'n of Internal Revenue*, 311 F.3d 1178 (9th Cir. 2002), Microsoft argued that it was entitled to tax deductions under 26 U.S.C. § 927(a)(2)(B) for all foreign sales of software replicated from Microsoft's golden master abroad, claiming that such copies were "export property" under the statute. The Ninth Circuit, while recognizing that purely "intangible intellectual property" was not "export property," *id.* at 1185, agreed with Microsoft that all copies created from the

software embodied on the exported golden master were export property, thereby providing Microsoft with over $31 million in claimed deductions for 1990 and 1991, *id.* at 1182, 1189.

D. Contrary to Microsoft's intimations (Pet. 15 & n.4), the Federal Circuit's decision about software in a computer-apparatus patent – reiterated in *AT&T*, 414 F.3d at 1369, which also decided the "supplied . . . from the United States" issue under § 271(f) – is perfectly consistent with other Federal Circuit decisions. *Pellegrini v. Analog Devices, Inc.*, 375 F.3d 1113 (Fed. Cir. 2004), *cert. denied*, 125 S. Ct. 642 (2004), simply did not involve software (supplied from the United States) installed on a computer (abroad). The "instructions" supplied from the United States in *Pellegrini* were nothing but instructions to people on how to fabricate integrated circuit chips abroad entirely from components supplied from outside the United States. (*See* Pet. App. 25a.) The components of the patented invention in *Pellegrini* were manufactured entirely outside the United States pursuant to those instructions to people and never shipped to or from the United States. There was no question about installing American-made software on hardware abroad. *Id.* at 1115. Indeed, the information at issue in *Pellegrini* is not patentable subject matter under 35 U.S.C. § 101, while software combined with hardware is. *See Diamond v. Diehr*, 450 U.S. 175, 185-89 (1981); *In re Alappat*, 33 F.3d at 1545. The *Pellegrini* holding as to mere instructions, of course, provides the limitations on § 271(f)'s breadth that Microsoft claims are necessary.

Nor is the decision below inconsistent with decisions finding § 271(f) inapplicable to patented *methods*. (*See* Pet. 15 n.4.) For example, in *NTP, Inc.*, the Federal Circuit

explained that supplying certain physical devices was not supplying "'component' steps for combination into [patentee's] patented methods." 418 F.3d at 1322-23. The method-patent issue, of course, was not raised in this case since Eolas did not seek § 271(f) damages for infringement of method claim 1 of the '906 patent but sought such damages only as to the *apparatus* claim 6.

Thus, in *Pellegrini* and elsewhere, the Federal Circuit has articulated limits on § 271(f)'s reach that follow directly from the statute's language. Those limits are not implicated by the software issue in this case, for which the statute's language provides the very answer the Federal Circuit gave. The Federal Circuit has been entirely consistent. And the limits on § 271(f) that the court has articulated effectively answer the sky-is-falling scenarios hypothesized by Microsoft.

V. Microsoft grossly overstates the "economic consequences" and "extraterritorial reach" of the application of § 271(f).

This case does not involve an exceptionally important issue that requires this Court's intervention. Microsoft's forewarnings of "economic consequences" and "extraterritorial reach" rest on its refusal to recognize the critical distinction, already discussed, between the software-in-apparatus issue decided in this case and general design-instructions or method-patent issues. Once that distinction is recognized, Microsoft's assertion of extraordinary consequences collapses. The Federal Circuit simply has not extended § 271(f) to mere design instructions or method patents.

Nor does the Federal Circuit's decision reach a case where "all the parts of the allegedly infringing products were of foreign origin." (Pet. 18.) The software that makes the computers abroad valuable and "new and useful" (Pet. App. 21a) was created domestically: that "part" was *not* of foreign origin. Microsoft conceives of, writes, compiles, tests, debugs, and creates a master version of the infringing Windows products in Redmond, Washington. And Microsoft fully intends the combination of that software with the computer usable medium abroad.

Microsoft may, of course, be exposed (if liability is ultimately found) to a "massive damages award" (Pet. 18), but only because software in a computer is patentable and Microsoft sells infringing software on a large scale. Microsoft's revenue is not limited by the number of golden master disks that it sends abroad. It earns revenue based on the ultimate number of new infringing units the OEMs create, at Microsoft's insistence, by installing the software made in the United States onto new pieces of hardware. Liability for infringement under § 271(f), far from being limitless, is tied directly to the magnitude of Microsoft's fully intended revenue-generating infringing activity.

VI. Microsoft's argument with respect to the United States's treaty obligations has been waived and is without merit.

Microsoft's several references to the United States's treaty obligations also provide no basis for certiorari. Microsoft did not raise those arguments below, and such contentions are therefore waived. *See Hoover v. Ronwin*, 466 U.S. 558, 575 n.25 (1984).

In any event, despite its extensive discussion of the United States's foreign obligations, Microsoft points to no treaty provision or obligation that is contravened by the Federal Circuit's ruling. Nor does Microsoft identify any *foreign* patent law taking a view contrary to the Federal Circuit's view of American law here. It resorts instead to stating that the Federal Circuit's decision "raises serious concerns." (Pet. 22.) But any concerns that the Trade-Related Aspects of Intellectual Property Rights Agreement ("TRIPS Agreement") may have raised were addressed by Congress in 1994 when "Congress amended 271(a), (c), (e), and (f), to include 'offers to sell' and 'importation' of an invention, and added 271(i) in order to meet our obligations under the TRIPS Agreement to harmonize United States intellectual property laws with international patent laws." Timothy R. Holbrook, *Liability for the "Threat of a Sale": Assessing Patent Infringement for Offering to Sell an Invention and Implications for the On-Sale Patentability Bar and Other Forms of Infringement*, 43 SANTA CLARA L. REV. 751, 763 (2003).

The TRIPS Agreement explicitly provides that "Members may, but shall not be obliged to, *implement in their law more extensive protection* than is required by this Agreement, provided that such protection does not contravene the provisions of this Agreement." Trade-Related Aspects of Intellectual Property Rights, Marrakesh Agreement Establishing the World Trade Organization, Part I, arts. 1.1, 27, Legal Instruments – Results of the Uruguay Round, Apr. 15, 1994, 33 I.L.M. 1125, 1198, 1208 (1994) (emphasis added). To the extent that Microsoft quotes the TRIPS Agreement and the *Paris Convention* (Pet. 12 & n.3, 22 & n.7), it quotes provisions applicable to *method* (process) patents, and even they positively suggest

support for certain kinds of "extraterritorial" patent protection.

* * *

In sum, there is no basis for review of the Federal Circuit's ruling in this case. The ruling is interlocutory. There is no intercircuit conflict. Microsoft presented, and the Federal Circuit addressed, only a slice of the relevant statutory provision. The ruling is correct, based on the text and policy of the statute, and consistent with other Federal Circuit rulings. And the ruling is distinctly limited in consequence.

Microsoft is seeking to limit its patent-damages liability for domestic conduct (software creation) to something far less than the value obtained for that conduct, even when it infringes another's patent. If Microsoft can persuade Congress now to "[l]imit[] § 271(f) to the supply of physical parts of a foreign-assembled product" (Pet. 20), Congress can presumably narrow the sweep of its patent-damages provisions. "Resolution of the pros and cons of whether a statute should sweep broadly or narrowly is for Congress." *United States v. Rodgers*, 466 U.S. 475, 484 (1984). At present, though, neither the text nor policy of the statute supports Microsoft's proposed limit. Thus, there is no reason to review the Federal Circuit's decision so holding.

CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted,

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RESPONDENTS' APPENDIX

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

EOLAS TECHNOLOGIES INCORPORATED,

and

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA,

Plaintiffs,

v.

MICROSOFT CORPORATION,

Defendant.

No. 99 C 0626
Judge James B. Zagel

MEMORANDUM OPINION AND ORDER

CONSOLIDATED RULINGS ON POST-TRIAL MOTIONS

Post Trial Motions of Microsoft

1. Judgment As a Matter of Law and For a New Trial

This motion rehearses a series of arguments that failed the first time around. The papers before me are, for the greatest part, a re-briefing of what has already been thoroughly argued and, in my view, correctly decided. The primary purpose of this motion is to avoid claims of waiver if the judgment is appealed, and it will be another court

that decides whether this purpose has been achieved.[1] The secondary purpose of this motion is to cite decisions not available at the time of the original claim construction with the hope that a change in law means a change in result.

That being said, I must review this motion and apply the widely held standards for JMOL and a new trial. JMOL is appropriate "where there can be but one conclusion from the evidence." *McRoberts Software, Inc. v. Media 100, Inc.*, 329 F.3d 557, 564 (7th Cir. 2003) (citation omitted). When reviewing a motion for JMOL, I must consider "whether the evidence presented, combined with all reasonable inferences permissibly drawn therefrom, is sufficient to support the verdict when viewed in the light most favorable to the party against whom the motion is directed." *Goodwin v. MTD Prods.*, 232 F.3d 600, 606 (7th Cir. 2000) (citations omitted). A new trial is appropriate where the verdict is "against the manifest weight of the evidence." *Billy-Bob Teeth, v. Novelty, Inc.* 329 F.3d 586,

[1] There is some protest in Eolas's response that Microsoft is arguing points that are waived. Eolas asserts that Microsoft abandoned its contention that the executable application had to be present on the client workstation before the browser parses the embed text format, that Microsoft failed to object to aspects of the instruction covering display of the object and that Microsoft waived its objection to instructions about "heavy lifting" referring to the use of resources outside the browser. Eolas may be correct, but waiver of objections to instructions that correctly embody the rulings on claim construction may not always serve as a waiver of appellate objections to the claim construction itself, so long as those objections were clearly stated during the claim construction hearing. I say "may be correct" because I have not reached a decision on the question of waiver. I have relied on the alternative ground that my rulings are correct. A reviewing court is, of course, free to decide the question of waiver and rely on that should it see fit to do so.

591 (7th Cir. 2003). I may not overturn a jury's verdict so long as it has a "reasonable basis in the record." *Westchester Fire Ins. Co. v. General Star Indem. Co.*, 183 F.3d 578, 582 (7th Cir. 1999).

As is demonstrated by the standards above, our judicial practice requires a high level of deference to the findings of a jury. These standards place a heavy burden on moving parties, like Microsoft. Despite Microsoft's best arguments, I adhere to my prior evidentiary rulings and my decisions excluding certain defenses from the case submitted to the jury, and I find there has been no material change in the law that would support another outcome in this case.

Finally, in asking for a new trial, Microsoft argues that there were errors in jury instructions concerning inducement of infringement. Given the whole set of instructions, I can not see how any jury could find Microsoft liable without first determining that Microsoft actively induced infringement. Accordingly, I do not perceive any error in the jury instructions.

2. New Trial with Respect to Damages or, in the Alternative, for Remittitur

The amount of damages based on a reasonable royalty is an issue of fact, *Micro Chem., Inc. v. Lextron, Inc.*, 317 F.3d 1387, 1394 (Fed. Cir. 2003), over which the jury has a great amount of discretion, *Liu v. Price Waterhouse LLP*, 302 F.3d 749, 756 (7th Cir. 2002). The damages awarded by this jury are, in absolute terms, very large. However, one could argue that, in relative terms, that $1.47 is a relatively modest portion of a $60.00 selling price but relative terms are relative terms. I am unwilling to say that roughly 2.5% of $60.00 is either modest or immodest.

In my view, the amount is not so huge in relative or absolute terms that the law will not countenance it, so I do not base any part of my decision on the size of the award *per se*. *See State Farm Mut. Auto. Ins. Co., v. Campbell*, 123 S. Ct. 1513 (U.S. 2003).

Microsoft argues against the validity of any damage calculation wherein the value of a complex, multi-functional product is the base from which a percentage is extracted – the percentage being the commercial value of a single infringing functionality. Microsoft has an institutional concern over such calculations because, as is widely known, it bundles together all of its Windows functionality as seamlessly as it can. It argues that this bundling is good engineering; others argue that it has a more nefarious purpose. Whatever the truth, the bundling makes it very difficult for either party to assess the value of each individual component.[2] Since Microsoft has created this difficulty for itself, it must bear the legal risks attendant to its way of business. At times, Microsoft's arguments seemed to border on proposing that an infringer could wrap together, in a single product, 150 technological innovations without having to any (sic) pay a cent in royalties so long as each innovation contributed only a small part of the product's overall value and was not itself a standalone product. But, few would be willing to adopt this position explicitly.

Microsoft seems to propose, in the alternative, that even if it must bear the consequences of its bundling policy, a jury should not be invited to determine the

[2] Even Microsoft's own expert had difficulty speaking in explicit terms about the correct measure of damages.

percentage of Windows or Internet Explorer's value that is attributable to Eolas's invention. In short, Microsoft argues that, for damages to be appropriate, the accused technology must contribute in some meaningful way to consumer demand for Windows or Internet Explorer. Here, Microsoft claims Eolas has failed to show that its invention made a meaningful contribution and, thus, is not entitled to damages. Microsoft's experts made this point by arguing that automatic invocation of an application saved only a mouse click or two and could not be regarded as a meaningful addition to Windows. Certainly, this argument has some force. The jury may have accepted this argument as it did assess a royalty rate far below the one asked for by Eolas. In the end, even Microsoft's own experts did not really declare that Eolas's invention was of no value to Windows or Internet Explorer. At trial, sufficient evidence was presented from which the jury could infer that Microsoft itself saw significant value in the functionality at issue.

Microsoft's final arguments are that the jury's verdict makes no sense in light of the royalty paid to Spyglass for a license to use an entire browser technology, that the royalty far exceeds the amount of money Microsoft invests in its annual research budget, that Microsoft could have achieved the same functionality in a different way and that Eolas could not sell the technology on its own. These arguments too are not without force but have already been considered and rejected by the jury.

While I am not entirely comfortable with the large size of the judgment, it is not my comfort which matters. *See Oiness v. Walgreen Co.* 88 F.3d 1025 (Fed. Cir. 1996). Both sides presented complex chains of evidence that could have supported a significantly higher or significantly

lower value than the one that appeared on the verdict. Exactitude is difficult in all damage cases, and it was made far more difficul (sic) here by the way Microsoft sells Windows. However, it was not outside the ability of a jury to make a rational judgment. The jury, to whom the decision was submitted, conscientiously reached a verdict as to the running royalty that was within the realm of reason.

3. Motion to Exclude Foreign Sales

Microsoft has moved for judgment as a matter of law of noninfringement with respect to products made and sold outside the United States and argues that, in light of new Federal Circuit precedent, I must reconsider and reverse my earlier decision in *Eolas Techs. Inc. v. Microsoft Corp.*, No. 99 C 626, 2003 U.S. Dist. LEXIS 13482 (N.D. Ill. Aug. 1, 2003). In that decision, I found infringement damages could be awarded, pursuant to 35 U.S.C. Section 271, for units of Windows with Internet Explorer produced and sold outside the United States. The relevant portions of that opinion are reproduced below.

> Section 271(f) prohibits manufacturing all or a substantial part of the significant components of a patented invention here and then having those components assembled abroad. This law was Congress's disapproval of the ruling of *Deepsouth Packing*.
>
> The intellectual property at issue in this case, namely the Windows source code, is contained on a computer disk, known as the "golden master." Microsoft provides this disk to foreign Original Equipment Manufacturers ("OEMs") pursuant to intellectual property licensing agreements

for their use in making and selling abroad computer products containing Windows. According to Microsoft, new units of Windows code are created abroad when the foreign OEMs, for each unit, replicate the Windows code in its manufacturing facility using the single "golden master" and installs these new units of replicated code on a computer useable medium, such as a computer disk or hard drive, which is supplied by the foreign OEM. Microsoft argues that this "golden master" is not a component of the foreign sales products within the meaning of Section 271(f).

The closest cases are *W.R. Grace & Co-Conn v. Intercat, Inc.*, 60 F. Supp. 2d 316, 319-21 (D. Del. 1999) and *Lubrizol Corp. v. Exxon Corp.*, 696 F. Supp. 302, 325 (N.D. Ohio 1988). In these cases the defendants sent chemical products abroad that were combined as supplied with other compounds into compositions that would have infringed had the combination occurred here. Those judges found that there was liability under Section 271(f). Only one of these opinions offered a rationale but both relied on what they, and I, agree is the plain language of the statute.

Microsoft argues that the "golden master" is distinguishable from the chemical products in these cases. It asserts that the disk is analogous to the formula for those chemicals sent abroad, not the chemicals themselves and therefore, the disk is not a component of the allegedly infringing product.

The "golden master" is like a chemical formula in that it is a series of directions (commands) written down so that it can be used again and again. If followed, the formula produces a result which is desired by its user or purchaser.

The "golden master" is unlike a chemical formula because its contents are an operating element of the process which produces the result which is desired by a user or purchaser (like Paranox 300 and Paranox 600 when added to other ingredients made a better oil additive in Lubrizol).

A chemical formula can be memorized (as many complex recipes are) and discarded. The source code has to be installed, never to be discarded.

A philosophical argument can be made that installation of the source code is akin to memorizing it. But I think the recipe memory, of which we speak (in ordinary language) is not what we mean when we speak of computer memory.

The machine does not 'remember' – it holds code and, unlike the human, that is all it does. The result desired by the user of the compound product of the programmable machine (a computer) and Windows code is made from code and hardware together. That which invokes the operation to secure a result (i.e., my finger pushing buttons) and the devices connected to the buttons are, in the important sense here, external to the basic product. So too are the devices which input data. That which displays the machine's output is external in this way.

The devices which start the machine, input data, or display output are essential to the usefulness of the machine to users. Yet if the laptop on which I am writing this opinion had a power button stuck in the on position, a keyboard covered by a solid locked plate, and the screen was dead, but "my laptop" is still there. What is there

is the internal hardware and the source code which operates, provides utilities, can browse and execute applications.

This analysis is not metaphysical. It is an analysis of language. It is appropriate because the goal is to find the meaning of ordinary language as it is used by lawyers and judges when deciding whether something is made and, if so, where it is made. Where code is installed on a disk or a hard drive to be put into a programmable machine, I conclude that source code in a computer product like my laptop is, in law, the legal equivalent of a piece of computer hardware and not the legal equivalent of a chemical formula.

In a legal sense, a source code is a made part of a computer product. In contrast, a chemical formula is discovered rather than made, and is not part of any product.

I will not bar plaintiffs from seeking damages for units of Windows with Internet Explorer which are produced and sold outside this country.

Microsoft argues that this decision has been effectively overruled by *Bayer AG v. Housey Pharms., Inc.*, 340 F.3d 1367 (Fed. Cir. 2003). In *Bayer*, the Federal Circuit found that the process patent at issue did not fall within the parameters of 35 U.S.C. Section 271(g) because it yielded only intangible information and not a physical product. Microsoft claims that the same physical requirement should apply in this case. At the heart of Microsoft's argument is its assertion that the source code contained on the "golden master" is merely intangible information. For the reasons laid out in my August 1, 2003 opinion, I

disagree. The source code contained on the "golden master" is not intangible information but is instead a real and substantial part of the final product. Because I find that the source code present on the "golden master" is not intangible information, *Bayer* does not affect my decision.

Microsoft also argues that no combination of elements exists that is sufficient to satisfy Section 271(f). For the reasons clearly laid out in my August 1, 2003 opinion, I disagree and find the combination requirement has been met.

4. Motion to Stay Entry of Judgment and *All* Further Proceedings

A Deputy Commissioner of the Patent and Trademark Office has, pursuant to his authority, ordered a reexamination of the '906 patent. The PTO rarely exercises this power, and when it does, it is usually not good news for the patent holder because a high percentage of such reexaminations end in cancellation or amendment. Therefore, Microsoft argues that I ought not to enter judgment until we hear what the PTO has to say. If the '906 patent is cancelled or gutted, the costs of proceeding with appeal are avoided. But, these costs are trivial compared to what has already been spent. The real problem for Microsoft is the decision about what to do with its products before all is said and done by all who can say and do.

If Microsoft chooses to change its products, many third parties will have to change their products so that Microsoft users can gain access. Microsoft itself will incur

large costs to make the change.[3] Additionally, since virtually no new software works right the first time, Microsoft users will likely pay a price as well. If the judgment here does not hold up, all this considerable cost and inconvenience will be for naught.

However, Microsoft does have another less costly alternative to making immediate changes to Windows and Internet Explorer.[4] It can stand fast on its positions of non-infringement and invalidity and minimal damages. What Microsoft risks is payment of royalties if the judgment here stands. Because of its strong financial condition, there is no question that Microsoft will be able to pay those royalties and, thereby, avoid the uncompensated third party costs and inconveniences associated with an unnecessary change.

Staying proceedings until the PTO acts on the reexamination, however, would impose more significant costs on Eolas. It is an entity whose only real asset is the patent. If its patent is finally found to be valid and infringed, it will have waited more than half a decade to be paid. Furthermore, no one has represented that the reexamination would necessarily be a short process.[5]

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[3] It is true that Microsoft sings a little different tune here than it did at trial where it argued that the patented invention even if valid and infringed was not a big deal. However, it lost that point and is now entitled to argue that a change in the technology is a big deal as Eolas has always said it was.

[4] It has this alternative because, for reasons stated elsewhere in this ruling, I stay the effect of injunctive relief until appeal issues are resolved and for a period of weeks thereafter.

[5] One possible reason to believe that the reexamination would not take long is that, according to the Deputy Commissioner for Patent Examination policy, the reexamination was triggered by a "substantial

(Continued on following page)

Because of the '906 patent's high profile, I doubt that any prudent re-examiner would issue an opinion without an extended and thorough process, which as always will take time. The Deputy Commissioner for Patent Examination Policy signed an order for the reexamination in which he simply said that reexamination was ordered because "in view of the admitted prior art of the '906 patent and the teachings of Berners-Lee, Raggett I, and Raggett II, a substantial new question of patentability is raised." Although I am familiar with both the Raggett references, I still could not predict the time needed for reexamination, particularly since the PTO examines prior art unconstrained by certain presumptions about validity which bind judges like me. In the end, I can only opine that the PTO will not be quick about this and will need some significant measure of time.

There are cases in which courts have stayed ongoing proceedings pending reexamination. However, there is little support, if any, for staying entry of judgment when reexamination is ordered well into the briefing period for post-trial motions. *See Viskase Corp. v. American Nat'l Can Co.*, 261 F.3d 1316 (Fed. Cir. 2001). The reexamination is insufficient to warrant a stay on the entry of judgment and delay of the appeal at this time.

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outcry" from the Internet community. The most prominent among the creators of the Web, Sir Timothy Berners- Lee (sic), expressed the view that the PTO had missed clear prior art. Judging from the record before me, it is safe to say that some of the outcry arises from the view of a significant portion of Web experts, including Berners-Lee, that royalties ought not to be paid patented Web innovations. This contingent believes instead that Web invention is for the good of humanity and not the inventor. If this is the true reason for the reexamination, then I doubt the reexamination will take very long.

Post Trial Motions of Eolas

1. Motion for Injunction

Eolas seeks to enjoin Microsoft from continuing to use the infringing product or its colorable variations. Ordinarily, a patent holder is entitled to an injunction against unauthorized use of its invention.[6] Microsoft does not argue than (sic) an injunction is inappropriate but instead argues that any injunction must be carefully tailored and, in any event, ought to be stayed. The thrust of Microsoft's argument is that its product is in such widespread use that a broad injunction would impose unacceptably high costs on the product's users. These costs will include not only dollars but also other irreparable injuries such as loss of time and interruption of work. Many quite old infringing products are still in wide use today (including the one installed on my computer until fairly recently). Moreover, Web based business will be affected because Web pages may have to be redesigned. The redesign may, in some cases, require upgrades to millions of older Windows systems.

Injunctive relief is equitable and, in this case, where both granting and denying of the injunction will inflict irreparable injury, I must look to the balance of harms between these two parties. To balance harms is to assess the consequences of error and assess who is hurt worse if the court wrongly decides the question of injunction.

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[6] Compulsory licensing is possible, but it is not close to first on the list of remedies. Not only is there the presumptive irreparable harm, there is the possibility that Eolas will be precluded from using or licensing its technology to others because of Microsoft's dominance of the browser market. Moreover, Microsoft has said that it can design around the patent and this statement should be taken at its face value against Microsoft even if Eolas may doubt its truth.

Foodcomm Int'l v. Barry, 328 F.3d 300, 305 (7th Cir. 2003). If I wrongly deny the injunction, Eolas loses some ability to exploit its invention for the next year or two. Since this will coincide with the time period for the appeals and reexamination, I think that Eolas's prospects can, at best, be considered poor. The running royalty Eolas will receive should come quite close to making it whole. This is far less than what Microsoft stands to lose. At a minimum, Microsoft will incur the cost of designing around the patent, testing and manufacturing of the new product, integrating the new product into the existing web culture and losing the ability to return to its currently proven technology if the patent ultimately fails.

The cost to users of the infringing product should not, in my view, be put into the balance of harms analysis but rather should be used to determine whether the public interest is served by the issuance of the injunction. An injunction (as opposed to colossal damages) with respect to a product so widely used and deeply integrated into society, as is this one, presents a policy problem. This may be one of those matters (like widespread toxic torts and giant securities frauds) for which we need a maxim like De Maximus Non Curat Lex. The original De Minimus Curat Lex expressed the view that the law should not address trivial matters presumably because the costs, tangible and intangible, exceed the benefits. The new maxim is founded on the recognition that courts may not be able to answer the questions posed by these problematic policy cases. But, these policy problems are not for District Judges to decide. The law seems clear that inventors have a right (outweighed only by public health and safety needs and exercise of the taking power of government) to keep their invention to themselves, to share it with whom they

choose or to completely preclude its use. *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538 (Fed. Cir. 1995). It is the loss of these rights that cause the irreparable injury that can be vindicated only by in [sic] injunction, not by damages.

Accordingly, Eolas is entitled to an injunction even if the balance of harms would, in a non-patent case, counsel against injunction and even if the public interest (excluding health and safety) would weigh against it. However, to minimize the harm that a wrongly decided injunction would inflict on Microsoft and on the public, the scope of the injunction should be limited. *See Atlas Powder Co. v. Ireco Chem.*, 773 F.2d 1230, 1233 (Fed. Cir. 1985) (While monetary relief is often the sole remedy for past infringement, it does not follow that a money award is also the sole remedy against future infringement). The injunction should be carefully crafted to preclude infringement only with respect to future conduct by Microsoft; infringements in the past are to be remedied by damages. The distinction is important here because the infringement occurs many times each day as Windows users display interactive objects embedded in Web pages. These infringements, in my view, belong in the category of past infringements because the device used to infringe was made and sold long before the judgment in this case. The future infringement is limited to new versions of Microsoft's Windows operating system or any major service pack of any existing versions of the Windows operating system containing Internet Explorer that Microsoft releases to manufacturing.[7]

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[7] These are the words that Microsoft suggests.

Eolas objects on the grounds that this injunction should not be limited to the specific ways in which Microsoft distributes the accused products but instead should reflect the traditional language which bars "making, using, selling and offering to sell." I do not read the Microsoft language so narrowly. I read "manufacturing" to mean "any entity, including Microsoft itself or its subsidiaries, which manufactures products containing or using the systems released to it by Microsoft." I read the word release to include "sell or offer for sale or use." I regard injunctions written to cover a specific way of doing business to be far more easily enforceable than general form language proposed by Eolas. So Eolas need not fear Microsoft might change its methods of distribution to avoid the force of the injunction, I have included language that will oblige Microsoft to notify Eolas and the Court of any change in its practice that might arguably affect the application of the injunction.

I also agree with Microsoft that a lead time of 17 weeks to devise and release newer non-infringing technology is justified by policy. The line between past and future infringements should not invariably fall on the day that judgment is entered. Given the circumstances of this case, I think infringements occurring within 17 weeks of the effective date of the injunction are reasonable and best treated as past infringements. Finally, given the inability of Eolas to post bond, I stay the effective date of the injunction pending resolution or abandonment of appeal or a decision not to appeal. After the effective date of the injunction, motions to modify the injunction may be made in the normal course for good cause.

2. Motion for a Determination of Prejudgment Interest

Ordinarily, the winner in a case like this gets prejudgment interest. *See General Motors Corp. v. Devex Corp.*, 461 U.S. 648 (1983). What is disputed here is the amount of (not the right to) prejudgment interest to which Eolas is entitled. Eolas wants the prime rate of interest compounded quarterly from the date of infringement, which adds up to about $1.0 million.[8] Some courts, like the Seventh Circuit, use the prime rate as the default standard, *Gorenstein Enters. v. Quality Care-USA., Inc.*, 874 F.2d 431 (7th Cir. 1989), however, the Federal Circuit does not. *Studiengesellschaft Kohle v. Dart Indus.*, 862 F.2d 1564 (Fed. Cir. 1988).

Microsoft asserts, and I agree, that the rate and the method of compounding is left to my sound discretion. The argument against using the prime rate is that the prime rate is designed to compensate for financial risk (albeit the low risk of prime borrowers) associated with the possibility of non-payment by borrowers. Given Microsoft's strong financial position, it presents a risk that is much more like

[8] This argument has some force, but it could be wrong if, say in the course of its operations (which might include the cost of this lawsuit), Eolas actually did borrow money at the prime rate and paid that interest. Then prime rate interest would clearly be compensatory. However, Eolas, so far as the record shows, did not borrow and this justification for a prime rate is lost. *See Laitram Corp. v. NEC Corp.*, 115 F.3d 947 (Fed. Cir. 1997). *Laitram* does not require evidence of borrowing to use the prime rate. It simply recognizes that absent borrowing, there is one less reason to use the prime rate.

that of federal governments making the Treasury Bill rate more appropriate.[9]

Microsoft also challenges the assumption that it would have been paid its royalties on the first day of the quarter. Since is [sic] appears to me that royalty agreements in this business usually provide for payments within a reasonable period after the close of the quarter, I must agree with Microsoft. In fact, Eolas itself has entered into agreements providing for royalty payments sixty days after the close of the quarter. Using the Treasury Bill rate and setting the royalty payment date to a reasonable period after the close of the quarter, I find that the prejudgment interest owed comes to about $45.3 million (See Exhibit E of Creighton Hoffman's Supplemental and Second Supplemental Declarations). In effect, this compensates Eolas for receive [sic] royalty payments it would have received four times a year and would have invest [sic] in a risk-free instrument. This might not have happened in the real world, but prejudgment interest calculations are made on the assumption of some logical practice in light of the investment options available when the money arrives.[10]

3. Motion for An Equitable Accounting

I grant the motion and will require an accounting after any appeal in this case is terminated. At that time, I will order a hearing to determine the number of units of

[9] Eolas's own evidence about the financial status of Microsoft establishes the absence of any risk of default greater than that which attaches to treasury bills.

[10] These assumptions can be overridden by showing some established money management practices of the plaintiff enterprise but there was no such showing.

infringing products sold between October 1, 2001 and the final judgment, the reasonable royalty rate and the prejudgment interest, if any. I will consider at the time of the hearing certain specific defenses and objections that Microsoft has to the period October 1, 2001 through May 31, 2003. Microsoft objected early on to Eolas's proposal that its damage presentation at trial end with the period prior to October 1, 2001. Microsoft said that by doing so, Eolas deprived Microsoft of its right to trial by jury. Microsoft also objects on the grounds that the form and nature of the infringement verdict would render post-trial accounting impermissibly speculative. Eolas has responses to both objections. I decline to rule upon them now and reserve decision until the time for accounting is fixed. Prejudgment interest, if any, will be calculated in the same manner it was calculated for the present damage award.

For the reasons given herein, Microsoft's motions for Judgment As a Matter of Law and for a New Trial, for a New Trial with Respect to Damages or, in the Alternative, for Remittitur, to Exclude Foreign Sales and to Stay Entry of Judgment and All Further Proceedings are DENIED. Eolas's Motion for Injunctions is GRANTED to the extent consistent with this opinion and, in lieu of a bond, is STAYED pending appeal. Eolas's Motion for Prejudgment Interest is GRANTED. Microsoft is ORDERED to pay Prejudgment Interest in the amount (sic) $45,332,588 is awarded in accordance with the method shown in Exhibit E of Creighton. (sic) Hoffman's Supplemental and Second Supplemental Declarations. Eolas's Motion for an Equitable Accounting is GRANTED and will be conducted once the appeals process is completed.

ENTER:

/s/ James B. Zagel
James B. Zagel
United States District
Judge

DATE: 14 January 2004

No. 05-288

In The

Supreme Court of the United States

MICROSOFT CORPORATION,

Petitioner,

v.

EOLAS TECHNOLOGIES INCORPORATED AND THE REGENTS OF THE UNIVERSITY OF CALIFORNIA,

Respondents.

On Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

SUPPLEMENTAL BRIEF OF RESPONDENTS

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SUPPLEMENTAL BRIEF OF RESPONDENTS

In our brief in opposition, at page 13, we stated that the Federal Circuit has not extended Section 271(f) to method patents. That was true when the brief was filed, but the fact has now changed. On Monday, October 3, the Federal Circuit in *Union Carbide Chems. & Plastics Tech. Corp. v. Shell Oil Co.*, 04-1475, 1512, slip op., 2005 WL 2416329 (Fed. Cir. Oct. 3, 2005) held Section 271(f) applicable to a particular method patent based on the particular facts of that case. Nevertheless, it remains indisputable (contrary to *Union Carbide*'s apparent understanding) that *the present* case does not involve any method claim as Section 271(f) damages were only sought for infringement of the apparatus claim, claim 6. Accordingly, if the question of Section 271(f)'s application to method claims eventually warrants further consideration, that consideration cannot and should not take place in the present case, but should occur, if at all, on rehearing or certiorari in *Union Carbide* or in some future case actually involving a method claim.

Respectfully submitted,

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